

18 February 2020

Construction & Engineering | Construction

ISOTeam (ISO SP)

Buy (Maintained)

A Better 2HFY20 Ahead; Stay BUY

Target Price (Return): SGD0.31 (+41%)
 Price: SGD0.22
 Market Cap: USD50.6m
 Avg Daily Turnover (SGD/USD) 0.02m/0.02m

- **Keep BUY and DCF-based SGD0.31 TP, 41% upside with c.2% FY20F (Jun) yield.** ISOTeam's 2QFY20 revenue fell by 22.6% YoY to SGD35.5m on lower contributions from the addition and alteration (A&A) business. This segment recorded a plunge in turnover of 53.4% YoY to SGD14.2m, due to the absence of revenue from the Marina Bay Sands (MBS) projects, offset by double-digit revenue growth across its repairs and redecoration (R&R) and Others business segments.

Analyst

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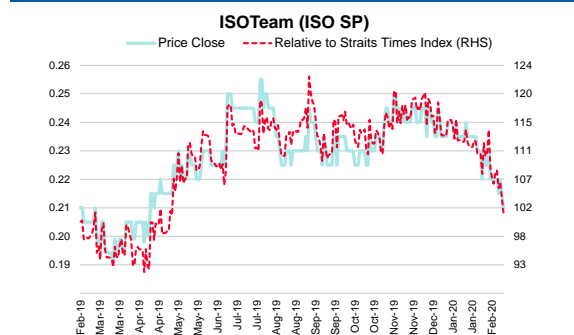


- **2QFY20 gross profit margin improved by 1.9% YoY.** Due to a higher gross profit margin of 13.4% (+1.9% from 11.5% in 2QFY19) coming from the R&R and Others segments, gross profit was at SGD4.8m, marking a decline of just 9.7% YoY from SGD5.3m in 2QFY19. NPAT and PATMI grew 0.6% YoY and 24.1% YoY to SGD1.3m and SGD1.7m YoY, as a result. 1HFY20 gross margin improved by 1.3% to 15.2% vs 13.9% in 1HFY19 – which should be a sustainable level going forward.

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.5)	(12.5)	(16.0)	(8.7)	(4.6)
Relative	(12.4)	(10.9)	(15.6)	(11.0)	(3.6)
52-wk Price low/high (SGD)	0.19 – 0.26				

- **Robust SGD133.3m orderbook.** ISOTeam's sturdy SGD133.3m orderbook is consistent with its orderbook in 1HFY19, which was valued at SGD132.8m. Orders secured in 1HFY20 amounted to SGD86.4m, which indicated an upward trajectory vs 1HFY19's SGD72.1m and 2HFY19's SGD70.3m. We believe that the order intake momentum is likely to continue, as the group has enhanced its capabilities and extended its regional presence by acquiring Pure Group in January. Ongoing government initiatives like the expanded Home Improvement Programme (HIP) and HIP II schemes, as well as neighbourhood renewal plans, should keep its momentum of new orders going. We also see pockets of opportunities in areas like BCA Green Mark certification, SolarNova, integrated resorts (ie MBS) expansions, electrical load upgrading projects and future MRT contracts – which may boost its orderbook as well.



Source: Bloomberg

- **Expected to meet full-year profit forecast.** ISOTeam's 1HFY20 revenue (SGD63.8m) and PATMI (SGD2.8m) are equivalent to 39% and 32% of our full-year estimates. With the profit guarantee of SGD3m from Pure Group, we believe that it will meet, if not exceed, our full-year PATMI target of SGD8.8m.

- **So far, the business has not been impacted by the COVID-19 outbreak** and has only a limited number of Chinese nationals working in the firm. Management regards this quieter period as an opportunity for businesses (clients) to undertake minor upgrading/renovation works.

- **No change to our call or TP.** We continue to favour ISOTeam during this uncertain environment. The group should also benefit from opportunities stemming from the upcoming general election.

Forecasts and Valuation	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Total turnover (SGDm)	84	137	165	179	188
Recurring net profit (SGDm)	0	7	9	11	12
Recurring net profit growth (%)	(92.7)	1,276.2	30.9	29.7	5.0
Recurring P/E (x)	121.95	8.85	8.89	7.08	6.97
P/B (x)	1.2	1.0	0.9	0.8	0.8
P/CF (x)	na	na	63.72	8.67	7.04
Dividend Yield (%)	0.9	2.0	2.4	2.8	2.9
EV/EBITDA (x)	21.94	7.74	7.57	5.87	5.60
Return on average equity (%)	0.9	12.5	12.2	12.5	11.9
Net debt to equity (%)	21.7	41.3	30.1	22.4	16.3

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (SGD)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Singapore	Recurring EPS	0.00	0.02	0.02	0.03	0.03
Construction & Engineering	DPS	0.00	0.00	0.01	0.01	0.01
ISOTeam	BVPS	0.18	0.20	0.23	0.25	0.26
ISO SP	Return on average equity (%)	0.9	12.5	12.2	12.5	11.9
Buy						
	Valuation metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Valuation basis	Recurring P/E (x)	121.95	8.85	8.89	7.08	6.97
DCF	P/B (x)	1.2	1.0	0.9	0.8	0.8
	FCF Yield (%)	(17.4)	(25.2)	(1.0)	9.1	8.3
Key drivers	Dividend Yield (%)	0.9	2.0	2.4	2.8	2.9
i. Contract wins;	EV/EBITDA (x)	21.94	7.74	7.57	5.87	5.60
ii. Margin Improvement	EV/EBIT (x)	na	14.53	9.82	7.35	6.88
	Income statement (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
Key risks	Total turnover	83.8	136.6	164.6	178.9	187.8
i. Economic slowdown;	Gross profit	13.0	21.6	29.3	32.4	34.0
ii. Change in government regulations	EBITDA	3.0	9.9	13.2	16.7	17.2
	Depreciation and amortisation	(5.1)	(4.6)	(3.0)	(3.3)	(3.2)
Company Profile	Operating profit	(2.1)	5.3	10.1	13.3	14.0
Founded in 1998, ISOTeam is an established player in the building maintenance and estate upgrading industry in Singapore. Being an early adopter of eco-conscious methods with over 15 years of R&R and A&A experience, public and private sector clients have the advantage of having access to its eco-expertise, as well as its mainstream R&R and A&A capabilities to achieve cost-effective and eco-conscious R&R and A&A works for their buildings and estates.	Net interest	(0.6)	(1.2)	(1.3)	(1.3)	(1.3)
	Pre-tax profit	(0.8)	7.3	10.1	13.3	14.0
	Taxation	0.5	(1.0)	(1.7)	(2.3)	(2.4)
	Reported net profit	0.5	6.8	8.8	11.5	12.0
	Recurring net profit	0.5	6.8	8.8	11.5	12.0
	Cash flow (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Change in working capital	(7.8)	(20.9)	(10.2)	(5.0)	(2.9)
	Cash flow from operations	(4.7)	(13.7)	1.2	9.4	11.9
	Capex	(5.7)	(1.4)	(2.0)	(2.0)	(5.0)
	Cash flow from investing activities	(2.4)	(1.1)	(14.0)	(2.0)	(5.0)
	Dividends paid	(1.8)	(0.5)	(1.8)	(2.3)	(2.4)
	Cash flow from financing activities	2.0	8.7	13.2	(2.3)	(2.4)
	Cash at beginning of period	14.8	12.2	9.0	9.4	14.5
	Net change in cash	(5.1)	(6.1)	0.5	5.1	4.5
	Ending balance cash	9.7	6.1	9.5	14.5	19.0
	Balance sheet (SGDm)	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Total cash and equivalents	12	11	12	17	21
	Tangible fixed assets	34	30	33	32	34
	Total investments	6	9	9	9	9
	Total assets	102	123	161	172	183
	Short-term debt	12	26	26	26	26
	Total long-term debt	12	10	13	13	13
	Total liabilities	48	64	71	73	75
	Total equity	54	59	90	99	108
	Total liabilities & equity	102	123	161	172	183
	Key metrics	Jun-18	Jun-19	Jun-20F	Jun-21F	Jun-22F
	Revenue growth (%)	1.1	63.0	20.5	8.7	5.0
	Recurrent EPS growth (%)	(92.5)	1278.1	(0.5)	25.5	1.7
	Gross margin (%)	15.5	15.8	17.8	18.1	18.1
	Operating EBITDA margin (%)	3.6	7.3	8.0	9.3	9.2
	Net profit margin (%)	0.6	4.9	5.4	6.4	6.4
	Capex/sales (%)	6.8	1.0	1.2	1.1	2.7
	Interest cover (x)	(3.66)	4.55	8.04	10.55	11.10

Source: Company data, RHB

Figure 1: Breakdown of 2QFY20 and 1HFY20 results

SGDm	2QFY20	2QFY19	YoY +/- %	1HFY20	1HFY19	YoY +/- %
Revenue	35.5	45.9	-22.6%	63.8	73.1	-12.8%
Gross Profit	4.8	5.3	-9.7%	9.7	10.2	-4.5%
Gross Profit Margin	13.4%	11.5%		15.2%	13.9%	
Profit Before Tax	1.6	1.7	-6.7%	2.7	2.4	13.2%
PATMI	1.7	1.3	24.1%	2.8	2.1	31.7%
PATMI Margin	4.7%	2.9%		4.4%	2.9%	

Source: RHB, Company data

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-01-28	Buy	0.31	0.22
2019-11-18	Buy	0.31	0.25
2019-09-25	Buy	0.31	0.23
2019-08-29	Buy	0.31	0.24
2019-07-25	Buy	0.31	0.25
2019-05-15	Buy	0.29	0.23
2019-02-18	Neutral	0.23	0.21

Source: RHB, Bloomberg

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Analyst	Company
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